

Message Text

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AMEMBASSY KABUL

AMEMBASSY KATHMANDU

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMCONSUL HONG KONG

AMCONSUL KARACHI

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SUBJ: RECENT ECONOMIC DEVELOPMENTS

SUMMARY. THE GOVERNMENT IS STICKING TO ITS ECONOMIC PLAN OF AGRICULTURAL-LED GROWTH AND IS STILL FORECASTING AN INCREASE IN INDUSTRIAL PRODUCTION OF 5-6 PERCENT THIS FISCAL YEAR. SOME SECTORS OF THE ECONOMY ARE IN TEMPORARY RECESSION. FINANCE MINISTER SUBRAMANIAM SAID THAT THE GOI IS CONSIDERING SEVERAL MEASURES TO STIMULATE DEMAND AND THAT A PACKAGE OF ECONOMIC MEASURES WILL BE READY BY JANUARY, OR EARLIER, IF REQUIRED. THE GOVERNMENT'S ANTI-INFLATIONARY POLICIES CONTINUE, AND PRICES HAVE GENERALLY REMAINED STEADY IN RECENT WEEKS. END SUMMARY.

1. THE GOVERNMENT IS STILL COUNTING ON A BUMPER KHARIF (FALL) V CROP TO STIMULATE THE REST OF THE ECONOMY. SUBRAMANIAM TOLD A GROUP OF FINANCIAL WRITERS IN NEW DELHI THAT INCREASED PURCHASING POWER BY FARMERS SHOULD BRING ABOUT GREATER DEMAND IN OTHER SECTORS OF THE ECONOMY. HE FORECAST INDUSTRIAL GROWTH OF 5-6 PERCENT THIS FISCAL YEAR. THE MINISTRY NOTED THAT THE PRESENT CROP HAD BEEN SO GOOD THAT RICE PRICES HAD "CRASHED" IN PARTS OF ANDHRA PRADESH AND THAT THE GOVERNMENT HAD TO STEP IN WITH PRICE SUPPORT MEASURES. HE BELIEVED THAT GOI ACQUISITION OF LARGE QUANTITIES OF DOMESTIC FOOD SUPPLIES WOULD BE THE BEST WAY OF CONTROLLING THE MARKET AND WOULD NOT BE INFLATIONARY. HE WAS ALSO OPTIMISTIC ABOUT THE RABI (SPRING) HARVEST.

2. SUBRAMANIAM SAID THE GOI HOPED TO EVOLVE A PACKAGE OF ECONOMIC MEASURES BY JANUARY AFTER SEEING THE OUTCOME OF THE KHARIF HARVEST. HE ADMITTED THAT CERTAIN SECTORS OF THE ECONOMY, E.G. TEXTILES, WERE IN "TRANSITORY" RECESSION AND THAT THE ECONOMIC AUTHORITIES WERE SOMEWHAT DISTURBED BY SLACK DEMAND. HE SAID THE GOVERNMENT MIGHT HAVE TO TAKE INTERIM STEPS BEFORE JANUARY IN ORDER TO STIMULATE DEMAND. THE MINISTER RULED OUT TAX CUTS TO TAKE CARE OF THIS PROBLEM. RATHER, HE SAID THAT THE GOVERNMENT FAVORED INCREASING PUBLIC INVESTMENT IN CRITICAL SECTORS. AN ADDITIONAL ONE BILLION RUPEES WAS BEING ALLOCATED FOR IRRIGATION AND POWER PROJECTS.

3. REPORTS OF INADEQUATE CONSUMER DEMAND HAVE BEEN PROMINENTLY FEATURED IN THE PRESS IN RECENT WEEKS. THE DRYING UP OF BLACK MONEY HAS GREATLY REDUCED THE DEMAND FOR LUXURY ITEMS BY UPPER AND UPPER MIDDLE CLASS RESIDENTS IN NEW DELHI, BOMBAY

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AND OTHER MAJOR CITIES. CUTBACKS IN THE PRODUCTION OF AUTOMOBILES, AIRCONDITIONERS, TV SETS, FURNITURE, REFRIGERATORS AND OTHER HOUSEHOLD APPLIANCES HAVE RESULTED. (SUBRAMANIAM INDICATED THAT THE GOVERNMENT HAD TO FIND A SOLUTION TO COMPENSATE FOR THE WITHDRAWAL OF BLACK MONEY.) CONSUMER RESISTANCE TO HIGHER PRICES OF MANY OF THESE ITEMS PLUS RETAILERS' PRESENT RELUCTANCE TO HOLD LARGE STOCKS HAVE ADDED TO THE PROBLEM. COAL STOCKS AT PITHEADS ARE AT A RECORD LEVEL - 7.8 MILLION MT (OR A MONTH'S PRODUCTION)

- BECAUSE POWER HOUSES HAVE LARGE COAL SUPPLIES ON HAND. STEEL INVENTORIES IN STOCKYARDS HAVE REACHED 800,000 MT (OVER SEVEN WEEKS OUTPUT), ALTHOUGH GOVERNMENT AUTHORITIES ARE APPARENTLY NOT ALARMED BECAUSE OF THEIR HOPES OF EXPORTING OVER ONE MILLION MT OF STEEL THIS FISCAL YEAR. CONSUMER RESISTANCE TO SHARPLY HIGHER ALUMINUM PRICES IS RESULTING IN LARGE INVENTORIES. THE JUTE INDUSTRY IS IN TROUBLE BECAUSE OF SLACK WORLD-WIDE DEMAND FOR ITS EXPORTS. IN CONTRAST, A RECENT ECONOMIC TIMES ANALYSIS OF 100 INDUSTRIAL COMPANIES SHOW THAT MOST OF THEM ARE REPORTING INCREASED OUTPUT AND PROFITS AND THAT SOME FIRMS ARE STILL WORKING OFF LARGE INVENTORIES BUILT UP IN THE 1973-74 INFLATIONARY PERIOD. THE TIMES CONCLUDES THAT THE OUTLOOK FOR INDUSTRIAL GROWTH IS PROMISING.

4. SUBRAMANIAM NOTED THAT THE RECENT 10 PERCENT INCREASE IN OIL PRICES WOULD MEAN AN ADDED IMPORT BILL OF ONE BILLION RUPEES PER YEAR IF THE SAME LEVEL OF OIL CONSUMPTION IN INDIA PREVAILED. HOWEVER, HE INDICATED THAT IMPORTS OF CRUDE AND PETROLEUM PRODUCTS MIGHT HAVE TO BE CUT. THE GOI IS NOW CONSIDERING WHETHER OR NOT TO INCREASE DOMESTIC PRICES OF GASOLINE AND DIESEL FUEL.

5. THE FINANCE MINISTER REITERATED THAT IMPORT LICENSES TO BE GRANTED TO FIRMS AS AN EXPORT INCENTIVE MEASURE WOULD NOT BE USED TO BRING IN LUXURY GOODS. RATHER, THE LICENSES COULD ONLY BE FOR THE SELECTIVE IMPORT OF SCARCE RAW MATERIALS AND GOODS. (THE GOI IS STILL WORKING ON CHANGES IN ITS EXPORT PROMOTION POLICY, INCLUDING THE ROLE OF SUBSIDIES.)

6. THE GOVERNMENT REMAINS COMMITTED TO ITS ANTI-INFLATIONARY POLICIES BECAUSE OF CONTINUING CONCERN ABOUT A POSSIBLE RESURGENCE OF UPWARD PRICE PRESSURES. IN A SPEECH TO THE TAMIL NADU CHAMBER OF COMMERCE IN MADRAS, SUBRAMANIAM SAID THE GOI LIMITED OFFICIAL USE

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WOULD NOT UNDERTAKE ANY INFLATIONARY MEASURES BEFORE JANUARY OR FEBRUARY. IN THE PAST MONTH AGENCIES PREVIOUSLY GRANTED A MONOPOLY TO SELL SUGAR, VEGETABLE OIL, CEMENT AND PAPER PRODUCTS HAVE BEEN BANNED. THE GOVERNMENT, BELIEVING THAT SUCH AGENCIES HAVE MARKED UP PRICES UNDULY, IS ATTEMPTING TO REDUCE MIDDLEMAN PROFITS. PRICES OF MANY ITEMS HAVE REMAINED STEADY IN RECENT WEEKS. RETAIL PRICES OF SUGAR, RICE AND WHEAT IN CALCUTTA HAVE COME DOWN, WHILE THEY APPEAR TO HAVE RISEN SLIGHTLY (COMPARED TO SIX MONTHS AGO) IN BOMBAY. RICE PRICES HAVE BEEN DECLINING IN SOUTH INDIA. THE ECONOMIC TIMES WHOLESALE PRICE INDEX AS OF SEPTEMBER 30 IS SLIGHTLY LOWER THAN ONE WEEK AND ONE MONTH BEFORE.

7. COMMENT. THE ECONOMY APPEARS TO BE IN A TRANSITIONAL STAGE AT PRESENT. ONE IMPORTANT QUESTION IS WHETHER THE GOOD HARVEST

HARVEST WILL HAVE SIGNIFICANT MULTIPLIER EFFECTS ON THE REST OF ECONOMY.

FARMERS ARE COMPLAINING THAT PROCUREMENT PRICES ARE TOO LOW, AND EVEN WITH A FAVORABLE CROP THEIR PURCHASING POWER MAY NOT RISE VERY MUCH. SOME PARTS OF THE INDUSTRIAL SECTOR ARE UNDOUBTEDLY FACED WITH INADQUATE CONSUMER DEMAND, WHILE OTHER FIRMS ARE APPARENTLY DOING QUITE WELL. THE GOVERNMENT IS WATCHING AND WAITING, AND POSSIBLE FUTURE ECONOMIC POLICIES - SUCH AS A REDUCTION IN EXCISE TAXES OR LIBERALIZATION OF CREDIT - COULD HAVE AN IMPORTANT STIMULATIVE EFFECT ON ENTERPRISES. HOWEVER, WE PROBABLVY WILL NOT HAVE A CLEAR IDEA OF HOW THE GOVERNMENT'S GAME PLAN IS WORKING (OR NOT WORKING) UNTILNEAR THE END OF THIS CALENDAR YEAR. END COMMENT.
SCHNEIDER

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